Discussion Statement No. 16, December, 1934
Material suggested for use in developing discussion of problems of agricultural adjustment.

United States Department of Agriculture
Agricultural Adjustment Administration
Washington, D. C.

--------0--------

THE NATIONAL AGRICULTURAL PROGRAM IN RELATION TO THE NORTHEAST

Adapted from an address of Henry A. Wallace, Secretary of Agriculture, at an Agricultural Conference of Northeastern States, New York City, November 8, 1934.

I should like to examine the problems of the Northeast with reference to the problems of farmers elsewhere, and the problems of farmers everywhere with reference to the Nation as a whole. I should like to look beyond the details, for a while, and to explore in a preliminary way that all-inclusive phrase, "farm income", with reference first to national income, and then with reference to certain groups of farmers.

Ever since the depression of 1921, our agricultural attitudes have been based largely on the belief that farmers were not getting their fair share of the national income. Farmers soon discovered, in the post-war decade, that agriculture was not getting as much of the national income as it did before the war, and anything less than that became, more or less automatically, unfair. Hence the Agricultural Adjustment Act of 1933, for instance, with the declared purpose of giving farmers a larger share of the national income through the device of restoring pre-war parity prices.

Only rarely, however, has there been discussion of the basic question, namely, what is a fair share of the national income? Is it 10 percent, or 15, or 20? Assuming, for a pleasant moment, that we can get whatever share is deemed fair, how can we be sure that 15 percent, say, _is_ fair, but that anything above or below that is unfair?

What is Agriculture's Fair Share of the National Income?

I would like to be able to offer a neat and precise formula, but I can't, and I know of no one who can. We can, however, make some progress by agreeing upon even a general definition, and also it will be useful to examine the past course of farm income in relation to national income. That general definition must certainly include some reference to a decent standard of human living, to the maintenance of a balanced flow of production, to an adequate, or perhaps a maximum, consumption, and to the conservation of soil fertility.

Having in mind the permanent welfare of our country, we might phrase the definition of "fair share" as follows: Farmers will have a fair share of the national income when their share is sufficient (1) to maintain a flow of production in balance with the needs of a maximum consumption, (2) to provide for decent human living, and (3) to achieve these ends without impoverishing the soil.

Examining the record of the past, we of course expect to find that the farmers' share of the national income has declined as farm population has become a smaller proportion of total population. In 1850, when 63 percent of the gainfully occupied in this country were occupied in agricultural pursuits, the share of the national income that went to agriculture was around 35 percent. In 1900, with 36 percent of all the gainfully employed on farms, the farm share of the national income was around 20 percent; in 1920, with 26 percent of the gainfully employed on farms, the farm share of the national income was about 14 percent; and in 1932 the farm share of the national income had dropped to less than 8 percent. At the present time it is probably around 9-1/2 percent.

The most recent occupational statistics we have refer to 1930, when about 21 percent of the total working population were on farms. At present, because of urban unemployment and a consequent back-to-the-land movement during the depression, the proportion of the total working population on farms must be considerably higher, perhaps between 23 and 25 percent.

This would mean, on the basis of past ratios, that the farm share of the national income should be around 13 percent, instead of its present 9-1/2 percent. The long-time tendency apparently has been for the farmers' percentage of the national income to approximate a little more than half of the percentage of the working population employed in agriculture. If 24 percent of the gainfully employed are now on farms, the trend of the past would allocate for farmers at the present time about 13 percent of the national income.

I am not saying that the relationships of the past can dictate the relationships of the present and future. Nor am I inferring that the farm share of the national income in the past has been fair, or adequate to provide that balanced flow of production to meet the needs of adequate consumption and the protection of the farmers' soil and his standard of living. Everyone knows this has rarely been the case, if ever.

Certainly there are other groups in the population whose share of the national income is wholly out of proportion to their numerical strength. No doubt certain occupational groups, small in number, have many times as much of the national income as their percentage of the gainfully employed would suggest. It may be that some occupations deserve more of the national income than others, but that is beside the point: the point is, what share of the national income can the Nation afford to permit a given group to possess, if there is to be economic and social stability? It becomes even more pressing than this, for in the life of most of the nations of the world, including our own, there are times when it is necessary to decide the question on the urgent ground of preservation as a nation.

Relationships Between Town and Country

In this country much of our economic history has an earlier counterpart in Europe. Here, as in Europe in times past, a tremendous industrial development has precipitated in new forms the old question of relationships between town and country. The question has never been satisfactorily settled; the relationships have never "jelled" in a form satisfactory to our farmers, perhaps because they have been induced to accept rugged individualism, fresh country air and sunshine as substitutes for a larger share of the national income.

The most careful observers of Europe's past never, to my knowledge, have noted any extensive period when agriculture got more than its fair share of the national income. On the contrary, they have noted and emphasized repeatedly just the reverse. Many of you will recall Adam Smith's observation, in the introduction to "The Wealth of Nations", wherein he wrote:

"Since the downfall of the Roman Empire, the policy of Europe has been more favorable to arts, manufactures, and commerce, the industry of towns; than to agriculture, the industry of the country."

Or as George W. Russell, the "AE" of Irish fame, wrote a number of years ago:

"The Children in the House have never acted fairly by the Children in the Fields. They have been trying indeed to do so lately; but they are acting ignorantly, because the Children in the House, who arrange everything, do not really understand how to arrange life for the Children in the Fields, and there are long centuries of neglect to make up, and for long centuries the wealth of the world has poured into the cities. Reactions take place inevitably, even if they occupy vast periods of time; and the reaction against the domination of the town has begun over the world. There is an immense social change taking place: part of this change is the organization of the farmers to protect themselves and their industry, and this organization, when complete, will shift the centre of power to the country from the town where it has been too long."

Agriculture Still Short of its Normal Share

Largely as a result of the policies adopted in 1933, the downward trend in the farmers' share of the national income has been reversed, but agriculture is still short of its normal share. Before we can consider that we have attained even the traditional balance between agriculture and other industries, the farm percentage of the national income perhaps should be 3 or 4 points higher than at present. With the national income at the present time running around 50 billion dollars annually, this would mean a farm income of about 2 billion dollars, or nearly 40 percent above its estimated 1934 level. This would be an increase approximately equal to the increase of 1934 over 1932.

But if the national income rises from 50 billion to around 70 billion dollars, what should agriculture's share be? If that level of national income is to be maintained and made practicable, the farm share will have to go up from its present 9-1/2 percent to nearer 15 percent. In other words, of the 20-billion-dollar increase in national income, one fourth, or about 5 billion dollars, must come to agriculture. Unless that happens, the higher national level of income simply cannot be maintained for any great length of time. Our experience in the post-war decade, not to mention in other periods, ought to demonstrate that.

And such an increase in farm income will mean, as it has meant during the past year, less urban unemployment by virtue of an increased rural demand and purchasing power for urban goods. It may mean higher prices for some products, but it will also mean larger incomes with which to pay the higher prices. It may mean higher feed prices for eastern farmers, but it will also mean higher prices for the things produced on this feed.

While such an addition to the farmers' income would result in improving the farmers' standard of living and restore a little more than the historic ratio between agriculture and industry, I question whether it would last unless it were accompanied by some control over, or at least coordination of, the expansion in agricultural production.

Without such control, it is almost inevitable that the higher prices for farm products would again invite huge surpluses and another agricultural price depression. Without such control, the recurring cycles of over- and under-production in hogs, cattle, cotton, potatoes, etc., would promptly reappear.

Our hopes for agriculture are bound up with the need for maintaining a workable balance between production and consumption.

What are the Component Parts of Farm Income?

If what I have said of the relation of farm income to national income is acceptable, what of the component parts which go to make up farm income?

A long-time agricultural policy is concerned not only with maintaining an external balance between agriculture and other industries, but also with maintaining an internal balance. Not every branch of agriculture is influenced by the same set of unbalancing factors.

Before this depression set in, for example, our export branches of agriculture –– particularly wheat, cotton, hogs, and tobacco –– were getting less and less of their normal share of the national income; while the other branches of agriculture, such as dairy, poultry, and fruit and vegetable groups managed to maintain incomes more nearly in line with national income.

As early as 1925 the export group of farm products began to lose some of its normal share of the national income, a loss which by 1929 amounted to about a fifth. After 1929, of course, all farm groups slid down the toboggan, but again the export group slid faster and farther.

Producers of dairy and poultry products, of fruits and vegetables were hit by a loss of purchasing power at home, but producers of export products were hit by a loss of purchasing power both at home and abroad.

By the end of 1932, the share of the national income going to the producers of our major export farm products was just about half what it has been in 1924-25. As things stand now, they have regained about half of that loss.

In contrast, what I have called the domestic group of farm products -- embracing all but the four export products named earlier -- maintained a fairly constant share of the national income between 1924 and 1929, and then dropped about 17 percent below the normal share. Since 1932 they have climbed back to the level of 1924-29.

This is another way of saying that the amount of money spent by consumers for dairy and poultry products, for fruits and vegetables, tends to vary with the total incomes of the large mass of consumers, and that further improvement in the returns from these commodities will depend upon the general rise in industrial activity, industrial employment, and therefore the national income.

Significance to Farmers in the Northeast

The fact that commodities more definitely on a domestic basis tend to receive a fairly stable proportion of consumers' incomes is of obvious significance to the farmers of the Northeast, for their products are essentially for the domestic market.

So far, in our revival from the low points of 1932 and 1933, our agricultural policy has been to give producers of the Northeast higher incomes largely by the indirect but nevertheless tangible method of raising the purchasing power of those sections of agriculture that had been hardest hit, and where direct action was possible.

The South and West were the sections that had been hardest hit, and they grew the products upon which direct action was most likely to be successful. But if this policy had been entered upon only with the South and the West in mind, it would have been indefensible. From the beginning, however, it was related to the national problem, and it was contended that an increase of farm purchasing power in these most submerged areas would be most effective in increasing factory payrolls and therefore farm income in industrial areas. The Congress viewed the Agricultural Adjustment Act, it will be recalled, as the answer to a national, not a sectional, emergency.

Northeast farmers most certainly have a right to inquire whether this theory of indirect action has been supported by the facts. I have already pointed to the fact that the farm products in which the Northeast is chiefly interested have recaptured their normal share of the national income.

In this recovery it is reasonable to believe that the Agricultural Adjustment Administration has played an important role, though not the only one. Ever since the fall of 1933, when grain and cotton prices began rising, and benefit payments began getting into the hands of southern and western producers, the

effect on factory employment and on retail trade has been decisive. Business men in the East seem increasingly aware of this now, for in a Wall Street publication only the other day I noticed the comment, "It is hardly possible to over estimate the part played in retail trade by the improvement in the farmer's condition."

Ways in Which to Measure Effects on Northeast

There are various ways of measuring the effects on the Northeast of this increased purchasing power in the West and South. Recently we have begun a study of shipments by rail from the Northeast to the South, comparing a period in which the adjustment programs have been in effect, with an earlier period. The study is not yet complete, but some illustrative figures which may be of interest are available.

We have examined the waybills of two representative southern railroads, the Southern Railway System, and the Central of Georgia. The periods under study include the year ending June 30, 1933, and the 10 months ending April 30, 1934, and cover carlot shipments, which for these two roads are more than 95 percent of the total. Both roads penetrate the farming areas of the Southeast, and may be expected to reflect, in their shipments, any gain or loss in farm purchasing power.

From three great industrial States--Massachusetts, New York, and Pennsylvania--shipments to the Southeast in the first 10 months of 1933-34 were 43 percent greater in total tonnage than in a comparable period in the previous year.

The significance of these figures will come home to individual farmers in the Northeast as they realize how their income varies with the payrolls and production of industrial plants in nearby towns.

It must have been cause for satisfaction, not only in the town, but in the surrounding countryside, when increases like these took place: When the farm implement industries of Auburn, New York, for instance, shipped to the Southeast via these two railroads 23,000 tons of machinery in 1933-34 as against 12 tons the year before; when refrigerator concerns in Erie, Pennsylvania, more than doubled their shipments; when paint companies in Philadelphia doubled their shipments, and when shoe manufacturers in Boston trebled theirs. On increases of this sort farmers in the Northeast must place a large part of their dependence for higher incomes.

The Heart of the Northeast's Problem

Obviously the heart of the problem in the Northeast is now an increase in the national income, and thereby in consumer purchasing power for dairy and poultry products, for fruits and vegetables. Producers of these commodities have won back something like their former share of the national income, except in local areas affected by seasonal overproduction; from this point on, their fortunes

fluctuate, in the main, with the course of the national income itself. In this respect, at least, they are that much ahead of the producers of export products, for these farm groups have won back only half of the loss they incurred between 1925 and 1932 with respect to their share of the national income.

So far as the Northeast is concerned, however, this view of things may be giving past relationships altogether too much honor. It comes perilously close to assuming that from 1924-29 farmers in the Northeast really got a fair share of the national income. I do not believe they did.

If we are to pursue in our agricultural policy the objective of restoring to agriculture a share of the national income which will produce profitable and enduring relationships, then producers of domestically consumed products are entitled to a larger share than they have known in the post-war period.

The question at the moment is how to get that deservedly larger share. If adjustment programs, such as those applied to cotton and wheat, are not feasible for the major products of Northeastern farms, what methods are feasible? The device of marketing agreements and licenses is the prevailing possibility.

Frankly, I do not know to what extent this device can be helpful in the Northeast. It is apparent that you have some doubts yourselves, which helps to explain, I suppose, why no agreements for fruits or vegetables are in effect in this section.

In other areas the technical difficulties may not be quite as great. I am told that whenever an agreement regulating the flow to market is suggested, here in the Northeast the problem of compliance looms particularly large, because of the great volume of truck shipments. For this problem we might as well frankly admit that no one as yet knows the answer. Nevertheless, we ought not admit defeat on any technical problem until we have exhausted all our ingenuity.

A Challenge to Yankee Ingenuity

If the tradition of Yankee ingenuity means anything, the people of the Northeast have hardly scratched the surface. In the cooperative organizations built up here throughout the years, combined with the centralizing powers of the Federal Government made available by the Adjustment Act, there must exist the basis for a solution to certain northeastern farm problems. If the Adjustment Act in its present form is deficient, then it ought to be amended so that it will be as adequate as a Federal law can conceivably be.

Agreements are likely to be most effective in rescuing unduly oppressed segments of an agricultural industry, in ironing out certain seasonal and local problems, and perhaps in evening out long-time irregularities such as result from overplanting of tree crops.

Even these modest objectives will be difficult enough, for we have continually to steer down a narrow channel between the Scylla of overproduction and the Charybdis of consumer resentment.

If we are going to regulate the flow to market, that means control of marketing and ultimately control of production, at least if we hope to maintain a given price. A price so high as to stimulate increased production would make enforcement of the agreement impossible, and shove our frail craft over onto Scylla; on the other hand, a production so restricted as to be out of line with technical productive realities, and exhibiting the unpleasant features of a monopoly, would surely shove us hard against the Charybdis of consumer resentment, andalso incidentally, the resentment of those farmers who are outside the monopoly.

Toward Control of Volume

There must be some reasonably objective criterion by which we can steer. We have not found it yet, but I suspect it will involve a control of volume which aims toward a normal rate of growth in consumption, and such prices as will give producers a fairer share of the national income than the uncontrolled conditions of the past made possible.

It is possible that the mechanism of the marketing agreement and license is inadequate to raise Northeastern farm income to the level it ought, in all fairness, to attain. But we shall never know unless we try. I would urge farmers in the Northeast to find ways of utilizing the Agricultural Adjustment Administration. We do emphasize local initiative in devising and operating these new pieces of machinery, but we also believe it indispensable that the local effort be related, always, to the national pattern.

The hardships of this post-war era will not have been wholly in vain if we have learned, for all time, that farmers in each area, and the workers in each industry, are interdependent, and stand or fall together.

NOTE ON THREE GRAPHS

The three graphs on the following page show the relation of farm income in the South and West to industrial purchasing power. They show also the relation of both of these to the income from dairy and poultry products, fruits and vegetables from 1924 to the present.

> Farm income from grains and cotton, affected by foreign competition and demand conditions, failed to show the rising trend in national prosperity from 1924-1929 and therefore contributed to converting the 1929 boom into the 1932 depression. In this depression the returns from the export groups fell much more sharply than the returns from the crops dependent largely upon the domestic markets.
>
> The income from dairy and poultry products and fruits and vegetables, a substantial portion of which is produced in the northeastern part of the United States, declined to about 55 percent of the 1924-29 level, not quite as much as the decline in the incomes of industrial workers employed in factories and on the railroads; but the income from cotton and grains declined to less than 30 percent of the 1924-29 level.

The first task of agricultural adjustment in 1933 was to restore the purchasing power of the export commodities so as to lend support to a revival in general business, and so that the latter might then make possible a rise in the incomes of farm products produced largely for the domestic markets.

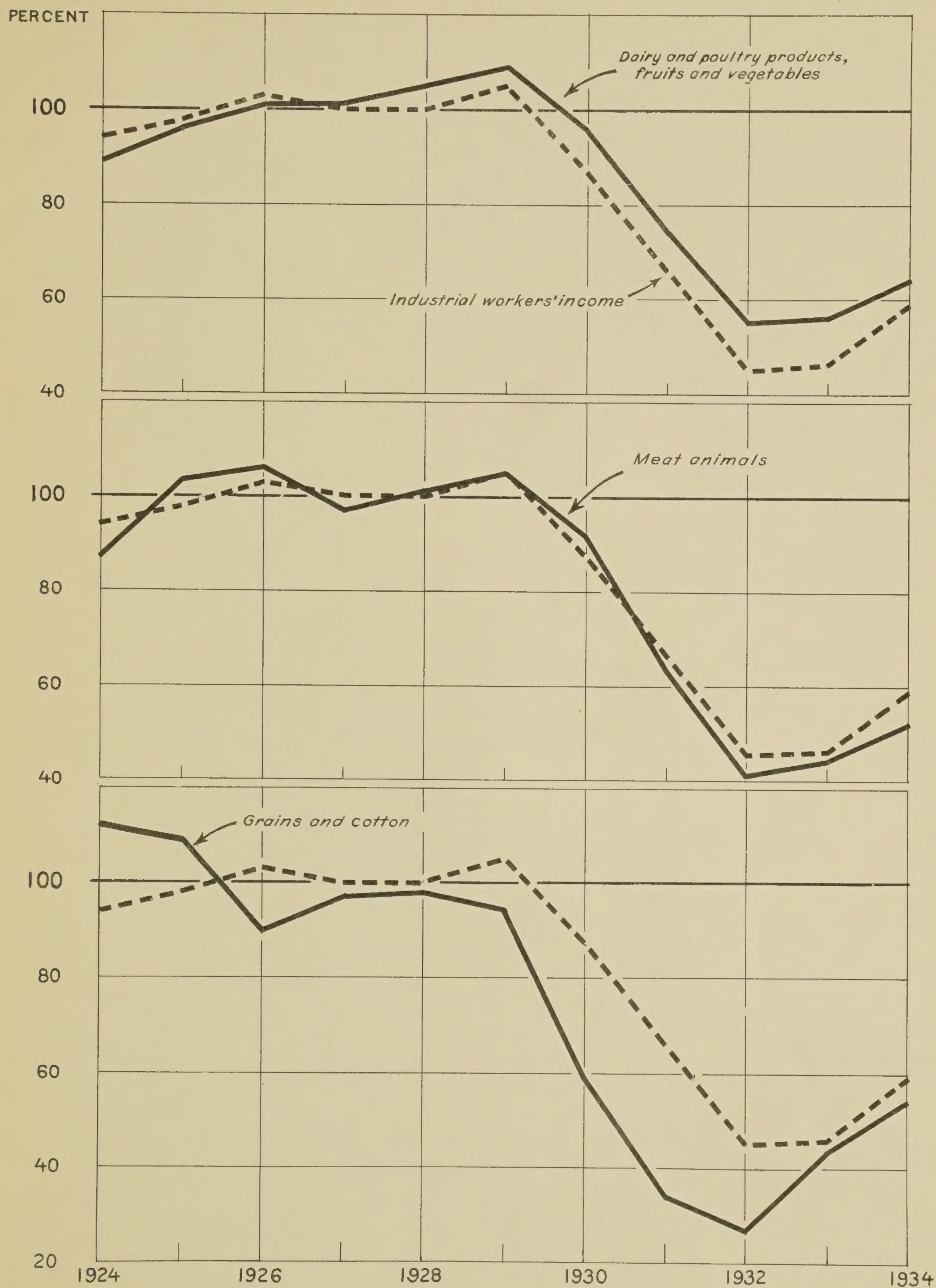
Taking the 1933 year as a whole, farm income from cotton and grains showed a sharp recovery and together with other recovery programs made possible the rise in consumer purchasing power, which, however, averaged in 1933 only slightly above the 1932 level. Because of the close relationship between the money income of consumers and the returns from the production of dairy and poultry products and fruits and vegetables, the latter also failed to show any noticeable increase for the entire year 1933 as compared with 1932. In both cases, of course, there was during the year 1933 substantial improvement from the low levels reached in the spring of 1933.

By 1934 the general business situation was feeling the effects of the stimulus from the increased purchasing power in the cotton and grain producing areas.

Including benefit payments, income from cotton and grains is expected to average this year about twice as high as in 1932, and the higher level of consumer purchasing power together with the increased returns in the areas producing export commodities is making possible a higher level of returns to the producers of commodities largely consumed in the domestic markets.

INCOME OF INDUSTRIAL WORKERS AND CASH INCOME FROM FARM PRODUCTS

1924-1929=100 PERCENT



U. S. DEPARTMENT OF AGRICULTURE NEG. 27925 BUREAU OF AGRICULTURAL ECONOMICS